



*WATER RESOURCES &  
DEVELOPMENT ENGINEERING  
INTERNAL CONTROL REVIEW*

*Review of Grant Management, Bond, Escrow & Latecomer  
Agreements and Development Inspection*

*Clark County Auditor's Office  
Report #98-2*

*September 28, 1998*

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CLARK COUNTY AUDITOR

Liz Luce

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## **M E M O R A N D U M**

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**DATE:** September 28, 1998  
**TO:** Mike Butts, Interim Director Department of Community Development  
**FROM:** Liz Luce, Clark County Auditor  
**CC:** Brian Carlson, Environmental Services Manager, Public Works Department  
**RE:** Water Resources and Development Engineering Internal Control Review

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Attached is a report presenting the findings and recommendations from our recently completed review of Water Resources and Development Engineering. The purpose of the project was to assess the adequacy of procedures related to accounting for and managing: water resources grants; bond, escrow and latecomer agreements with developers; and, the development inspection process. We completed our review as part of the Auditor's Office Internal Audit Division's 1997-1998 work program.

Our review looked at financial and operating activity from January 1997 through December 1997. During this time period the Water Resources Division was part of Community Development. As you know, Water Resources staff became part of the Public Works Environmental Services Division in January 1998. Due to this organizational change we have worked with Brian Carlson, Environmental Services Manager, in completing our work on Water Resources grants.

A complete presentation of our findings and recommendations can be found in Section 4.0 of our report beginning on page 7. Prior to finalizing this report we reviewed preliminary drafts with you and your staff in an effort to clarify our findings and recommendations. We appreciate the cooperation and assistance we received from Community Development and Public Works staff throughout our review.

Your written response to the report is included in Section 5.0 beginning on page 16 along with the response from Earl Rowell and Brian Carlson to the Water Resources Grant section of our report. We were pleased to note that both you and Brian indicate you have initiated steps to address our recommendations. As is our practice, we will be contacting you in approximately six months to determine the status of your efforts to respond to the issues raised in our report.

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## **1.0 Executive Summary**

### **1.1 Project Overview**

The Clark County Auditor's Office Internal Audit function's 1997 work plan included a review of the internal controls used by Community Development's Water Resources & Development Engineering divisions. The Development Engineering Division, now part of the Development Services Division, has responsibility for reviewing stormwater and drainage improvement plans proposed by developers for compliance with state and local laws. Staff in the Division's inspection unit inspect subsequent construction to ensure it conforms to the approved plans. The Department's former Water Resources Division, now organized under Public Works, is responsible for watershed planning and managing watershed related grants and special projects (see page 3 for an organizational history).

The objectives of our review included assessing the effectiveness of procedures used to process financial transactions and to ensure compliance with applicable regulations. Our review looked at financial and operating activity from January 1997 through December 1997, before Water Resources became part of Public Works. After an initial internal control assessment we focused our review on internal controls over: Department of Ecology (DOE) grants; bond, escrow and latecomer agreements with developers; and, the development inspection process.

### **1.2 Summary of Findings and Recommendations**

In general, we found that systems were in place or being developed to help ensure compliance with applicable regulations and to ensure proper handling and accounting of financial transactions. We did, however, find a general lack of written procedures, assorted documentation problems and inconsistent use of financial and permit information systems. In 1998 Department staff prepared draft procedures for some areas and began addressing several of our other recommendations. A summary of our main findings and recommendations include:

- **Water Resources Grants.** We found that the grants were satisfactorily managed and, with the occasional exception, the Division was in compliance with DOE requirements. We also noted the need to strengthen selected accounting and financial reporting procedures.
- **Bond, Escrow and Latecomer Agreements.** The Department needs to improve its administration of these agreements. Specific weaknesses include documentation and use of the permit system. Written procedures should clarify the process and staff responsibilities.
- **Development Inspection.** The Department needs to document policies and procedures to help ensure consistency in the inspection process and to ensure the accuracy and reliability of information in the Department's permit system.

A complete presentation of our findings and recommendations can be found in Section 4.0 of this report beginning on page 7. In their response, included in Section 5.0 beginning on page 16, both Community Development and Public Works staff indicate they are in the process of addressing most of the report's recommendations.

## **2.0 Project Objectives & Methodology**

The County's Audit Oversight Committee approved a 1997 internal audit schedule which included a review of the internal controls used by the Department of Community Development's Water Resources and Development Engineering Division. The review, conducted in early 1998, focused on financial and operating activities occurring between January 1997 and December 1997. Selected activities from 1998 were also reviewed where appropriate.

We began our review with an initial assessment of the Division's internal control environment. As part of this assessment we identified relevant work completed by the State Auditor's (SAO) Office during their annual audit of Clark County in 1997. During 1997 the SAO reviewed the Department of Community Development's permit issuance and fee collection process. Accordingly, we excluded these areas from our review. After completing our assessment we identified four areas for more detailed review. Those areas and their related objectives included:

### Water Resources

- **Grants.** Review internal controls that assure compliance with grant requirements and proper tracking of grant expenditures.

### Development Engineering (Includes Development Inspection)

- **Bond and Escrow Agreements.** Review internal controls that assure appropriate documentation, monitoring and release of bond and escrow agreements required by County Code or as a condition of development.
- **Latecomer Agreements.** Review internal controls that assure appropriate documentation, monitoring and collection of latecomer agreements (agreements between developers and the County related to developer-built drainage infrastructure).
- **Development Inspection.** Review internal controls over the development inspection process that assure compliance with applicable development requirements.

Based on our initial internal control assessment we conducted additional data collection and analysis in each of the areas selected for further review. These additional activities included:

- Reconciling a sample of DOE grant reimbursement requests to county financial records and reviewing a sample of expenditures for each of the grants.
- Reviewing operating procedures, documentation and system information for bond, escrow and latecomer agreements.
- Reviewing operating procedures, documentation and system information for the development inspection process.

Additional information on Water Resources and Development Engineering and the areas selected for more detailed review can be found in Section 3.0 beginning on the next page. Our findings and recommendations are presented in Section 4.0 beginning on page 7.

### **3.0 Background Information**

#### **3.1 Organization and Staffing**

The organizational changes that mark the history of the Clark County Community Development Water Resources & Development Engineering Division reflect the county's changing responsibilities for drainage and watershed issues. In 1992 Intergovernmental Resource Center (IRC) staff joined the Community Development Drainage Division to form the Water Quality Division. In 1994, responsibility for constructing drainage improvements shifted from the county to private developers and the County began reviewing developer drainage plans and inspecting related infrastructure. To reflect these new responsibilities the Division changed its name to Water Resources and Development Engineering. Later, in 1996-1997, the Division added development review and inspection responsibilities for transportation projects.

Shortly after the start of our review the Division reorganized again in an effort to consolidate all development review functions in Community Development and concentrate the county's infrastructure development and maintenance functions in Public Works. This was completed in January 1998 when Water Resources staff moved under the Environmental Services Division of Public Works. Finally, in the Spring of 1998, Community Development split the former Development Engineering Division into Development Engineering and Development Inspection to distinguish the actual functions performed. During the same reorganization the Department combined the two units with Development Review (Planning) under a new division called Development Services. Our review focused on the Water Resources and former Development Engineering organizations and we use these titles throughout our report. A brief description of the organizational units included in our review is provided below.

##### Water Resources Division

Water Resources is responsible for watershed planning and managing related grants and special projects. The Division's objectives include reducing the effects of flooding and improving water quality in Clark County watersheds. In December 1997 the Division consisted of ten employees. 1997 expenditures of approximately \$943,000 were funded by State Department of Ecology grants, the county's general fund and private participation in selected projects.

##### Development Engineering Division (Including Development Inspection)

Development Engineering is responsible for reviewing and approving development plans and inspecting subsequent development for compliance with applicable requirements. The Division's objectives include ensuring that developer plans comply with applicable County Code regulations and that actual construction conforms to approved development plans and other conditions of approval. The Division had thirteen employees in December 1997. Permit fees and county general fund revenues covered 1997 expenditures of approximately \$1,240,000.

Administration expenses for both divisions totaled approximately \$783,000 in 1997.

### 3.2 Water Resources Division Grants

The Water Resources Division currently manages five grants originating from the State Department of Ecology (DOE). In general, the purpose of the grants involve education, cleanup, protection and preservation of water sources within Clark County. A brief description of each grant and its original award date are provided below.

- **Referendum 39 Lacamas Restoration Grant (1988).** Education, outreach, technical assistance and monitoring to improve water quality in the Lacamas Lake watershed.
- **Centennial Clean Water Fund Lacamas Restoration Phase IIB Grant (1989).** Education, outreach, technical assistance and monitoring to improve water quality in the Lacamas Lake watershed.
- **Centennial Clean Water Fund Drywell Management Grant (1994).** Inventory existing drywells and associated stormwater systems, compile drywell management practices and develop a drywell management plan.
- **Centennial Clean Water Fund Wellhead Protection Grant (1994).** Inventory wellhead protection areas and provide education and technical assistance to reduce potential contamination of well related water supply systems.
- **Centennial Clean Water Fund Implementation of the East Fork Lewis River Watershed Action Plan Grant (1997).** Education, outreach, technical assistance and monitoring to improve water quality in the East Fork of the Lewis River.

Information on the amount of each grant and the reimbursements the county has received from DOE through the end of 1997 are shown in Table 1 below.

**TABLE 1**  
**Water Resources Division Department of Ecology Grants**

<b>Grant</b>	<b>Total Amount of Grant</b>	<b>Amount Received Through 12/31/97</b>
Lacamas Restoration - Ref. 39	\$535,000	\$508,364
Lacamas Restoration - Phase IIB	\$2,200,000	\$1,525,612
Drywell Management	\$193,500	\$104,808
Wellhead Protection	\$185,030	\$74,230
East Fork Lewis River Watershed	\$187,500	\$0

### **3.3 Bond and Escrow Agreements**

Certain aspects or stages of a construction project may require a guarantee that the work will be completed or that a developer will perform as required. In most instances the guarantee is secured by either a bond, letter of credit, or escrow account. Each type of guarantee is described below followed by a brief definition of each type of security.

#### Types of Guarantees

**As-Built Guarantees.** Prior to approval of original plans Development Engineering requires the developer of any commercial site to guarantee that as-built plans (plans showing the actual location of all improvements) will be provided at the end of the project. The developer will make this guarantee either by obtaining a letter of credit or setting up an escrow account for 110% of the cost of preparing these plans. As-built guarantees are not required on subdivisions and short plats. For these types of developments, County Code does not allow building permits to be issued until the as-built plans are received. According to a listing provided by Community Development in June 1998 there was approximately \$54,000 in outstanding as-built guarantees.

**Construction Guarantees.** All public improvements such as roads, stormwater facilities, sewer lines, and curbs must be complete before a developer can record a plat and begin selling lots. Often a developer may want to begin selling lots before all the work is finished. In lieu of completing all public improvements the developer may post a performance bond or escrow account equal to 100% of the cost of the work left to be completed. When this is done, the developer may receive plat approval from the county, record the plat, and begin selling lots. According to a listing provided by Community Development in June 1998 there was approximately \$671,000 in outstanding construction guarantees.

**Maintenance Bonds.** Upon completing a project developers must post a two year maintenance bond equal to 10% of the construction cost of any public improvements that were built as part of the project. When the bond is received the county will provisionally accept the public improvements for maintenance. During the two-year period the developer is responsible for all repair work. At the end of the two-year period the bond expires and the county becomes responsible for repair and maintenance unless the bond is extended or the county and the developer make other arrangements. According to a listing provided by Community Development in June 1998 there was over \$2.7 million in outstanding maintenance bonds.

**Wetland Permit Performance & Maintenance Bonds.** Prior to issuing a permit on a site involving a wetland the developer must meet certain requirements. Those requirements include posting a construction guarantee equal to 100% of the cost of the proposed wetland mitigation plan and a maintenance bond to ensure future maintenance of the wetland related improvements. According to a listing provided by Community Development in June 1998 there were approximately \$590,000 in outstanding bonds related to projects with wetlands.



## Types of Security for Guarantees

Guarantees may be secured by the following types of security.

**Escrow Account:** Funds set aside which cannot be used without prior authorization from a specified party. The account may be set-up at a bank or through the county Treasurer's Office.

**Bond:** In lieu of an escrow account the developer may post a bond. These bonds, obtained from a surety or insurance company, may be drawn upon by a specified party when the work is not performed as promised.

**Letter of Credit:** Typically from a bank, a letter of credit allows a designated party to draw on funds as specified in the letter of credit agreement.

### **3.4    *Latecomer Agreements***

The county and a developer may enter into an agreement where the developer agrees to build certain public improvements that exceed the capacity of those required for the current project. As part of the agreement, formalized in a written contract, the county must collect an agreed upon amount from future developers of adjacent property and reimburse the original developer. These agreements are called latecomer agreements. The county is responsible for administering these agreements and collecting the appropriate funds for a period of 15 years. There can be latecomer agreements for roads, traffic signals, or water and sewer facilities. Development Engineering is responsible for administering latecomer agreements for stormwater facilities. According to a listing provided by Community Development in June 1998 there were five latecomer agreements with an approximate value of \$241,000.

### **3.5    *Development Inspection***

One supervisor and five staff in the Development Inspection team are responsible for inspecting stormwater facilities, roadways, and other site development activity. Each inspector is assigned a region of the county and is responsible for monitoring all projects within their assigned area. The purpose of the inspection process is to ensure that construction is completed according to the approved plans and to County Code and that all aspects of the project conform to other requirements added as a condition of approval.

## **4.0 Summary of Findings and Recommendations**

### **4.1 Water Resources Grants**

#### Overall Assessment of Internal Controls

Overall we found that Water Resources Division staff have satisfactorily managed the Department of Ecology (DOE) grants, and with the occasional exception, the Division appeared to be in compliance with the DOE Administrative Requirements. The DOE staff responsible for monitoring the county's grants also expressed their satisfaction with the Division's overall performance on DOE grants.

One area of general concern included project accounting and financial reporting issues such as reconciliation of grant related costs to the county's financial information systems and timely submission of quarterly reimbursement requests and progress reports to DOE. We recommend that the Division take steps to improve its cost accounting systems and procedures to address these concerns. Another concern identified during our review was the limited ability of the Division to make progress on grant projects as outlined in the original grant application and planned for in the county's annual budget process. Diversion of resources away from grant projects can potentially limit the county's ability to meet original grant objectives. The decision to take on new projects should be made with a complete understanding of the impact on the Division's other activities. These and other concerns are outlined in more detail below.

#### Findings and Recommendations

- **Improve Cost Tracking Process and System Controls**
  - We found that some expenses eligible for reimbursement from DOE were not included in the Work Order Ledgers (WOL) used by Water Resources to track grant expenses. In order to be reflected in the WOL and not just in the county's General Ledger (GL) expense transactions must have additional coding. During our review we found some grant related costs that were recorded in the GL but not in the WOL and we did not find a reconciliation to account for or document these differences. Because the quarterly request for reimbursement from DOE is prepared from the WOL, expenditures which are not in the WOL may not get submitted to DOE for reimbursement. **We recommend** that the Division work with County Financial Services staff to establish a control in the General Ledger system that requires all Division expense transactions to be posted to a Work Order Ledger. Costs that do not have a work order code should be reported in an error report. This will help ensure that all costs associated with a grant are recorded in the WOL and that all eligible costs are submitted to DOE. **We further recommend** that staff in the county's Finance Department reconcile the GL with the WOL each month and document this reconciliation in a format suitable for outside review. This will help ensure that all eligible costs are submitted to DOE for reimbursement and provide an audit trail in preparation for a DOE audit at the close of the project.

- We found that some of the expenditures in the WOL were not included in the quarterly reimbursement requests submitted to DOE and there was no reconciliation of the difference documented in the DOE invoice files. We found some discrepancies documented in various places throughout the grant files however, the lack of complete documentation forced us to perform a more detailed comparison and attempt to fully document the discrepancies. **We recommend** that staff prepare a written reconciliation of the WOL to the DOE reimbursement request each quarter. This documentation will provide the grant managers with a better means of tracking grant costs and any corrections made when preparing the request for DOE reimbursement. The reconciliation will also expedite any DOE audit at the close of the project.

- **Submit Progress Reports and Requests for Reimbursement on Time**

- We found that the Division was not in compliance with DOE regulations that require grant recipients to submit payment requests at least quarterly but no more than once a month. One grant was not in compliance with this requirement. **We recommend** that the Division comply with the DOE requirements and submit requests for reimbursement at least quarterly. Additionally, these requests should be submitted in a timely manner following quarter end. Submitting requests in a timely manner will speed up reimbursement and help reduce the cost to the county for financing these projects.
- We found that the Division was not in compliance with DOE regulations that require grant recipients to submit quarterly progress reports on all projects whether or not any work has been done. Three grants were not in compliance with this requirement. **We recommend** that the grant manager submit quarterly progress reports as required. It is our understanding that the grant manager is currently taking steps to address this issue.

- **Submit All Grant Eligible Costs to DOE for Reimbursement**

During 1997 overhead costs, although allowed by DOE, were not included in the Division's requests for reimbursement submitted to DOE. DOE Administrative Requirements specify that up to 25% of salaries and benefits may be charged as overhead. Overhead is a legitimate grant cost, however, not charging overhead to the grant can increase the amount of funds available for other grant activities. **We recommend** that the Division review this issue with Financial Services staff and formally decide whether overhead costs will be included in future DOE reimbursement requests.

- **Improve Tracking of Expenses Incurred on Specific Properties to Facilitate Financial Contributions by Land Owners**

Historically, there has been no process in place to identify, track and monitor costs related to specific properties and farms included in the Lacamas Restoration projects. The inability to identify and track costs by specific property limits the Division's ability to collect partial payment from land owners as allowed by the grant. During the last several years staff have made an attempt to identify costs associated with specific properties and collect from the land owners. The lack of formal procedures and systems has made this task more difficult and could result in the county not collecting from land owners to the extent allowed by DOE. **We recommend** that the Division create and maintain procedures and systems to identify and track project costs associated with specific properties. Division staff have indicated that they will be developing a database to address this issue. We encourage the creation of this database and development of procedures to obtain signed agreements from land owners, track costs by property, and collect all allowable costs from each property owner.

- **Improve the Division's Budget and Planning Process**

We found planned grant expenditures included in the Division's annual budget significantly exceeded actual expenditures in 1996 and 1997. Actual expenditures were approximately \$443,000 in 1996 and \$340,000 in 1997 compared to budgets of over \$1,000,000 and \$792,000 respectively. Several factors outside the Division's control contributed to lower than anticipated grant expenditures including unfilled staff positions and diversion of resources to other projects such as the Lakeshore/Salmon Creek watershed plan as requested by the County Commissioners.

Our concern over the difference between budgeted and actual expenditures relates to the potential impact on the Division's financial condition and the impact of inflation on grant funded projects with fixed grant amounts. Significant deviations from planned budgets may result in changes in revenues and expenditures that in turn impact the overall financial condition of the Department. In addition, inflation in staff salaries and other costs means that the value of each grant dollar is reduced over time and that the same amount of grant funds will purchase less in terms of staff time, supplies or services. The effect of inflation and minimum annual administrative costs over an extended period of time may impact the ability of the county to meet a grant's original objectives within the original grant budget. Finally, significant variances between budgeted and actual expenditures suggests there is more uncertainty associated with the Division's annual work program and budget than might be anticipated in other areas. **We recommend** that, prior to taking on new projects, the Division analyze the impact such projects will have on existing grants, other priorities and the Department's financial condition. These impacts should be highlighted and considered during the decision-making process.

## 4.2 Bond & Escrow Agreements

### Overall Assessment of Internal Controls

The Clark County Code provides for several types of agreements where developers post bonds or escrow accounts to guarantee future performance. In order to administer the number and variety of these agreements the Development Engineering Division must have well developed procedures and an effective information system that can monitor the agreements and provide links to other aspects of the permit process. In addition, effective management of the agreements requires the ability to work effectively with staff in other parts of Community Development and in the county's Public Works Department. Clearly defined policies and procedures are important to ensure the agreements are handled properly and to help communicate requirements to developers and staff. Documented procedures also help new staff understand how to handle regular duties and help all staff deal with the unique and infrequent issues that may arise.

We found that the Division is not effectively managing its bond and escrow agreements. Problems include the lack of written procedures, inadequate or missing documentation in files and inaccurate or missing information about the agreements in the Department's permit system. Staff are aware of the problems and are currently in the process of developing written policies and procedures and enhancing their systems. Developing written policies and procedures combined with staff training on those procedures and more effective use of the Sierra System will help improve the Division's administration of bond and escrow agreements.

### Findings and Recommendations

- **Improve the Process for Establishing, Monitoring, and Enforcing Guarantees**

During our review we found the Division's listing of bond and escrow agreements was inaccurate or incomplete as was information related to the agreements recorded in the Sierra System. Documentation problems included missing cost estimates, wrong type of guarantees and improperly documented releases. Sierra System deficiencies included date errors, guarantee description errors and inaccurate status information. **We recommend** that the Division take steps to improve the process used to establish, monitor and enforce guarantees and also to ensure the accuracy of information in the Sierra System. Our specific concerns and related recommendations are provided below.

- The Development Services division does not have documented policies and procedures to guide how the various guarantees and their related security instruments should be processed. The Division is in the process of developing a procedures manual, however, at the time of our review only a draft version for Construction Guarantees had been written. **We recommend** that the Division continue to develop written procedures and train staff on those procedures and the proper use of the permit system. Procedures should include the process for obtaining, securing, and documenting agreements, entering information in the Sierra System, and monitoring both the agreements and the system information.

- We found that “holds” in the Sierra System used to inform staff of the need for completed as-built plans were not consistently in place for subdivisions or short plats. These “holds” alert staff that building permits cannot be issued and are an important control to guarantee the receipt of as-built plans. **We recommend** that Division staff place a “hold” on all subdivisions and short plats requiring as-built plans. The Division indicates that this is the current policy but that staff have not been properly trained to make the appropriate system entries. An automated system control to place a “hold” on all subdivisions and short plats would help ensure this is done.
- During our review we found some bond and escrow agreements were not supported by cost estimates, some cost estimates showed no evidence of county review and verification, and one instance where the wrong type of guarantee was obtained. **We recommend** that the Division review and verify the accuracy of all cost estimates provided as support for bond and escrow agreements. **We further recommend** that the appropriate staff sign the cost estimates indicating that they have verified their accuracy. **We also recommend** that the division take the necessary steps to ensure that the proper type of guarantee is received and to verify that the amount of security provided equals the cost estimate. These steps are important to ensure adequate funds are available if the county were forced to complete the work.
- Bond and escrow account documents we reviewed did not adequately describe the work they covered. **We recommend** that the Division only accept bond and escrow documents that include a brief but complete description of the work to be performed.
- We found that the project numbering scheme in the Sierra System made it difficult to identify the complete status of a specific project. For example, locating inspection information, performance bond information and wetland permit information for a single project requires knowledge of three distinct project numbers. System inquiries by project name and developer can provide information on other development requirements. However, we also found several instances where the project status information recorded in the system was inaccurately reported as the status of another project by the same developer. We understand that the Department is in the process of acquiring a new permit system. **We recommend** that the Department consider including in their new permit system a unique project identifier that is used for all aspects of a project. This will allow all development requirements related to that project to be reflected in any inquiry and make it easier to reference and access all information on a specific project.

- We found that some escrow documents inappropriately referenced the Director of Public Works as the person authorized to release funds. We also found that actual release authorizations on file were prepared and signed by either an inspector or office assistant. **We recommend** that Community Development update and clarify the relevant County Code sections and appropriate release forms to clearly indicate who is authorized to release bonds and escrows. The Division should also take steps to ensure the proper person authorizes future releases.
- **Improve Process for Accepting Developer Built Public Improvements for Public Maintenance**

We found a procedure in place to provisionally accept development projects and their related public improvements for county maintenance. However, there is no procedure for final acceptance of public improvements prior to the expiration of the developer's maintenance bond. The Division is working on a procedure to identify all projects six months prior to the expiration of their maintenance bond. Using this list the Department will be able to inspect the projects and identify any maintenance problems that the developer needs to address prior to the expiration of the maintenance bond. **We recommend** that the Division develop procedures to inspect and accept projects with public improvements prior to the expiration of developer maintenance bonds. These procedures should include steps to coordinate the inspection and acceptance process with Public Works and to ensure that any maintenance problems are addressed by the developer prior to becoming the county's responsibility. As an additional control we suggest the Division consider making the maintenance bonds expire only upon release by the county in a manner similar to the way performance bonds are currently structured.

- **Periodically Review and Verify Security for Guarantees**

According to Community Development records the Department currently administers bond and escrow agreements totaling nearly \$4 million. The Department does not currently verify the amount of security with banks, insurance or escrow companies during the life of these agreements. **We recommend** that the Department, on an annual basis, confirm the escrow accounts and bonds held by the Department with the appropriate bank or bonding agency. Annual confirmation will help identify potential bank or bonding agency errors and ensure the accuracy and completeness of the Division's records. In addition, this verification will confirm that the bonding company is currently in business, ensure that guarantees are properly secured and help ensure that adequate funds are available if the county is forced to use funds secured by the bond or escrow to complete the work.

As an additional quality assurance step **we also recommend** that management periodically and randomly review documentation maintained on escrows, bonds, letters of credit and letters of commitment and compare this to other Department records and information in the Sierra System. Review results should be documented and any documentation problems, data entry errors or other issues should be brought to the attention of the appropriate staff.

### 4.3 *Latecomer Agreements*

#### Overall Assessment of Internal Controls

Community Development appears to enter into very few stormwater latecomer agreements and as a result there are very few instances where stormwater latecomer fees need to be collected. Perhaps due to the infrequency of these agreements and recent staff turnover we found an overall lack of understanding regarding how many latecomer agreements are in place, unclear administrative procedures and uncertainty on how the Sierra System should be used to help the Division monitor and collect the appropriate fees. To ensure the county has viable contracts, complies with these contracts and collects the appropriate fees it is important to have written procedures readily available that outline how the agreements should be entered into, monitored and enforced. The lack of procedures, complete documentation and system information presents a risk that the county may not be collecting the appropriate fees as required. If the county does not collect the required fees it may still be obligated to pay the developer the amounts specified in the latecomer agreements.

#### Findings and Recommendations

- **Develop Procedures and Systems to Establish and Monitor Latecomer Agreements**

During our review we found it difficult to determine how many latecomer agreements actually exist and to identify which properties are effected by these agreements. We also found three agreements (out of five) which were not recorded in the County Auditor's Office as required by state law and one agreement that was not approved by the Board of County Commissioners as required by County Code. Furthermore, there are no written procedures for issuing, recording, monitoring, and collecting reimbursements on latecomers agreements and it appeared that the five agreements we reviewed were not being actively monitored by Division staff. According to Community Development records provided in June 1998 the five latecomer agreements had an approximate value of \$241,000.

To address these issues **we recommend** that the Division develop written procedures which inform staff how to issue, record, monitor, and collect on latecomer agreements and maintain documentation and system information on the impacted properties. Written policies and procedures will help ensure that the agreements are handled properly, consistently, and in a manner that limits the county's potential liability for uncollected fees. Procedures should describe the process for entering into these agreements, recording agreements at the Auditor's Office, entering information into the Sierra System, and identifying properties that are subject to a latecomer fee in the Sierra System. Latecomer agreements and related documentation should be maintained in a central file location and Division managers should perform periodic documentation and system reviews to ensure procedures are followed. Establishing these procedures will help improve the accuracy and reliability of information in the Sierra System and will help reduce the county's potential liability associated with latecomer agreements.



#### **4.4 Development Inspection**

##### Overall Assessment of Internal Controls

Well defined procedures are important to ensure consistency in the inspection process and to ensure that each development project is completed in compliance with County Code and other applicable requirements. Documented procedures also help new staff understand how to handle regular duties and help all staff deal with the unique and infrequent issues that may arise. Well documented procedures are important given the recent staff turnover, changing requirements and less than fully reliable permit system information.

We found that the inspectors did not have written policies and procedures in place. However, the Division indicated it will be developing written policies and procedures in the near future. We also found that documentation was not available to verify the accuracy and completeness of inspection information included in the Sierra System. Development of written policies and procedures combined with staff training on those procedures and use of the Sierra System will help assure consistent application of County Code and related requirements in the inspection process.

##### Findings and Recommendations

- **Document Policies and Procedures, Train Staff and Improve Communication**

We found that the Division does not have written procedures that address how inspections should be performed and documented. The inspectors work in defined geographic areas and inspect a variety of projects that can involve numerous and diverse requirements. As a result, individual inspectors may not frequently deal with certain inspection or Sierra System issues. In addition, the county often adds to or changes its development requirements and this can lead to changes in the inspection process or in the way the Sierra System is used to track project information.

To help assure consistency in the inspection process **we recommend** that the Department develop procedures to specifically address the inspection process and to clearly define staff responsibilities and documentation requirements. Specific attention should be given to potential risks associated with the inspection process and how these risks can be controlled. Communication of the procedures along with adequate training of staff will help ensure procedures are applied properly and consistently. A procedures manual can also be a useful resource for new employees to help orient them with the inspection process and the requirements established by County Code and the Division.

- **Retain Documentation of Inspections Performed**

We found limited documentation available to verify the accuracy of project status information included in the Sierra System. During each inspection visit the inspectors complete a checklist stating which phase of the project they reviewed and the results of the inspection. Inspection checklists are provided to the Office Assistant who inputs the information into the Sierra System. The data entry by the Office Assistant is not verified to assure accuracy and the checklists and supporting documentation are not retained. Our review of other areas found Sierra System information was not always accurate and reliable. Since there was no original inspection documentation available we could not verify the accuracy of the inspection information in the Sierra System.

**We recommend** that the Division retain the inspection checklists and other relevant documentation to support inspection results and the information contained in the permit system. Retaining the checklists and other source documents will substantiate the inspection process, allow verification of the information kept in the permit system and serve as a historical reference if necessary. According to Division staff they are now retaining documentation relevant to the inspection process.

- **Conduct Periodic Management Review of Documentation and System Information**

To ensure the established inspection procedures are followed, **we recommend** that Division managers periodically review the documentation in the inspector's files and compare that information to the information in the Sierra System. This review should check for proper and consistent application of established policies and procedures and the accuracy and reliability of information in the Sierra System. Special attention should be given to the adequacy of the documentation to make sure it is sufficient to support the inspectors work and the results of the inspection process.

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We want to take this opportunity to thank staff in Community Development's Development Services Division and staff in Public Works Watershed Resources Division for their cooperation and assistance during our review.

## **5.0    *Management Response***

**TO:** Liz Luce, Clark County Auditor

**From:** Michael Butts, Interim Director of Community Development

**Date:** September 24, 1998

**Re:** Audit Report

Community Development thanks the Auditor's office for this research and report and we agree that written policies and procedures are essential to effectively administer the department's responsibilities.

We have begun to improve the process to ensure the accuracy of information in the Permitting System, develop Policies and Procedures to establish, monitor, and enforce guarantees, and to verify the accuracy of cost estimates and guarantees. We expect these to be completed by December 1, 1998;

Next we intend to develop procedures to inspect and accept projects with public improvements prior to the expiration date of the guarantee, to confirm the escrow accounts and bonds held by the Department with the appropriate bank or bonding agency, and develop written procedures to record, process, and collect Latecomer agreements. Our target for completing this is February 1, 1999.

We are currently working to develop procedures for the inspection process and to identify the potential risks. We will develop policies to minimize risks associated with development inspections. We are currently retaining all relevant documentation that supports and documents the inspections.

Management will periodically and randomly review documentation to ensure that policies and procedures are being followed. We will also compare documentation to records on the permitting system.

The Auditor's report recommends some more effective uses for the permitting system such as holds on subdivisions and short plats, project identifiers, and other records that can be entered into the system. We think that with staff training, most of these issues will be corrected. We will ensure that staff are trained in the use of the permitting system and management will monitor and review the information entered.

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**Department of Public Works**  
**Environmental Services Division**  
**Stormwater and Watershed Resources Section**

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**MEMO**

TO: Paul Lewis, Operations Review Manager  
CC: Brian Carlson; Environmental Services Division Manager  
Craig Pridemore, Public Works Department Finance Manager  
FROM: Earl Rowell, Supervisor  
DATE: September 24, 1998  
**SUBJECT: Final Draft Report--Response**

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First, we appreciate the opportunity to respond to your Final Draft of the *Water Resources and Development Engineering Internal Control Review* (Clark County Auditor's Office Report #98-2, September 25, 1998). We reviewed the Finding and Recommendation Section on pages seven through nine and agree with your findings. We are taking steps to achieve improvements in the areas you highlighted.

We appreciate the professionalism of the Auditor's Office Operations Review Division during the review. We would like to be able to call upon you and your staff, to assistance us as needed, in implementing the improvements described in the review document.

If you have any questions, please feel free to contact me at extension 4580.